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**Deposited in *Repositório ISCTE-IUL*:**

2022-04-06

**Deposited version:**

Accepted Version

**Peer-review status of attached file:**

Peer-reviewed

**Citation for published item:**

Falcão, P., Ramalho, N. & Nobre, M. (2021). Stakeholder management: the new role of business diplomacy. *Journal of Business Strategy*. 42 (6), 399-406

**Further information on publisher's website:**

10.1108/JBS-01-2020-0016

**Publisher's copyright statement:**

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- Stakeholder management: The confluence of Public Relations and Business Diplomacy
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## **Stakeholder Management: The New Role of Business Diplomacy**

### **ABSTRACT**

Purpose: Stakeholder relations have usually been based on a two-way public relations model. Business diplomacy emerged as a discipline to renew stakeholder management. It is still uncertain if this proposal adds value to stakeholder management, which this study seeks to clarify.

Design/methodology/approach: Corporate representatives in charge of stakeholder management were invited to participate in an online survey measuring both public relations and business diplomacy activities. With a sample of 104 companies, factorial analyses were conducted on activities comparing model quality.

Findings: Public relations and business diplomacy activities share identity but not to the point of being fused and are thus different in nature. The best model showed three overarching functions (communication, influence, and intelligence), implying that stakeholder management needs both disciplines.

Research implications: Both public relations and business diplomacy research should be included in advanced stakeholder management studies.

Practical implications: By acknowledging the role that business diplomacy plays in stakeholder management, companies may place influence at the core of the renewed stakeholder management strategy to better deal with the increasingly complex business environment.

Originality/value: This study adds clarity to the role of public relations and business diplomacy in stakeholder management based on actual activities developed in organizations and reveals the underlying dimensions of communication, influence, and intelligence.

Key Words: Stakeholder Management, Resources, Public Relations, Business Diplomacy, Strategic Communication, Influence, Business Intelligence

Article classification: Research paper

We are living in a fast-paced and dynamic international business world. Overall changes concern the system, power, and players. Aligned with that, companies became more aware of the critical nature of the relationship with the environment in which they operate, including market and non-market actors, and

overall stakeholders. Companies began to emerge as influential actors that could engage in commercial, economic, and diplomatic activities.

To manage these interactions, stakeholder dialogue is a strategic tool (Guibert and Roloff, 2017) reinforcing quality corporate communication as a key asset. Public relations, a part of corporate communication, includes such activities as developing programmes, communicating with the public and other organizations, and dealing with public opinion (Asquer, 2012; DeSanto and Moss, 2005; L'Etang, 2009). For example, following the Deepwater Horizon oil spill in 2010 in the Gulf of Mexico on a BP-operated prospect, the BP public relations function managed to have a large presence in the media, with press conferences and ads, but did not take into consideration reaching other stakeholders such as the U.S. government. US President Barack Obama commented that the money spent on the ads should have gone to clean-up and compensating fisherman and small business owners.

More recent descriptions of the professional public relations role include the special interests of businesses and added clients (Mogensen, 2017). Because of the rapidly changing environment, businesses need not only to take part in areas outside the range of their core business, but also to develop diplomatic know-how (Ruël, 2013).

Corporate communication is not enough. The sheer complexity and novel demands of stakeholders put pressure on renewing the scope and role of stakeholder management. The new role incorporates added organizational diplomacy functions. This means more focus on interpersonal communications, the incorporation of negotiation and diplomatic skills in public relations education, and the adoption of patience and a long-term view to maintain ongoing dialogue and respect with other institutions (Macnamara, 2012). Nevertheless, this same author states that this reconceptualization would demand more than a semantic change and a "window-dressing to make Public Relations seem more socially palatable" (Macnamara, 2012: 321).

Essentially, companies are facing and trying to manage the same challenges as the national diplomatic services: a huge growth in non-state actors, with a consequent increase in stakeholders, the repercussions of new technologies and social media, and geopolitical risks (Hirsch, 2019). One example is Facebook, which

has been dealing in the last few years more frequently and with more intensity with increasing stakeholders, including, among others, media, government entities and regulators from many countries, while also struggling to do business in China.

A search of the business literature highlights the emergence of the concept of business diplomacy (e.g., Ruël and Wolters, 2016), although there is no consensus on how it differs from other functions such as public relations, or how it is operationalized. Business diplomacy is a “management function that liaises between the strategic objectives of a company with the social and environmental demands put to it by the community within which it operates” (Yiu and Saner, 2017: 35), which implies developing a set of activities. Public relations and business diplomacy activities are summarized in Table 1.

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Insert Table 1 approximately here

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While traditional public relations practitioners are involved with communication to a broad public, business diplomacy engages in a diplomatic mind-set and seeks above all to position geopolitical risk management within a cohesive and long-term strategic environment (Hirsch, 2019). Additionally, business diplomacy distinguishes itself by managing interfaces between companies and external non-business actors (Gutu, 2017).

Two-way communication models can achieve all goals in connecting the corporation with a complex network of stakeholders and society. Business diplomacy is depicted as a two-way model that brings novelty to the duties of similar public relations functions. An effective business diplomat is expected to operate in a range of activities that overlap those commonly assigned to public relations, negotiations, and diplomacy.

The idea of a business diplomat professional has been gaining traction in the literature but there is still uncertainty about how public relations and business diplomacy differ exactly. Considering the above, this study was motivated by the

following research question: how much overlap is there between business diplomacy and two-way public relations models?

### **Sounding out stakeholder managers**

This study relied on the participation of 104 multinational company executives in charge of managing stakeholder relations from a wide range of industries. In addition to personal and company data, the questionnaire asked how companies manage relationships with external stakeholders. A key element to this study was data collected based on Saner and Yiu's (2005) recommendations for identifying the activities these executives engage in when managing stakeholders. All 15 activities described in Table 1, pertaining to public relations or business diplomacy, were shown in random order and without identifying the role to which they belonged. Respondents were invited to report how often they performed each of the activities.

We expected that the study would reveal patterns of activities that executives employ when managing stakeholders. These patterns can be uncovered by using factorial analysis, a special data analysis technique that allows for the extraction of patterns of association between activities. Adopting currently used criteria to judge the quality of the data analysis, we started by testing for the existence of activity patterns specific to the domains of public relations and business diplomacy. Then we ran the analysis with all activities jointly to check if the emerging activity pattern overlapped with previous ones or if it added something new. There were three possible scenarios: 1) Fusion: business diplomacy activities add nothing new to public relations; 2) public relations and business diplomacy activities share elements but are not the same, and; 3) business diplomacy is something so different from public relations that these two may be truly unrelated. The three scenarios are illustrated in Figure 1.

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Insert Figure 1 approximately here

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## **Public Relations and Business Diplomacy differ but share identity**

On a scale ranging from 1 to 5 (1=Never to 5=Very Frequently), the activities executives reported that they developed more often were: frequently interacting with multiple stakeholders (4.17 out of 5), helping to establish and maintain open channels of communication and cooperation between the organization and the public (4.03), scanning the business environment (3.84), planning public relations programmes (3.77), having the responsibility for official institutional communications with other organizations (3.77), diagnosing public relations problems (3.73), and meeting with and advising senior management (3.71). The two activities least performed were: affecting the making of rules (2.93), and engaging in diplomatic missions (2.37).

Based on the answers, we considered the quality of the data analysis, which was found to be good and we can technically trust the findings. Then we examined which scenario received empirical support. Findings showed that scenario 2, i.e., business diplomacy differs from public relations but shares identity, should be selected as it is the one that has better quality model indicators and is far better than the other two scenarios in accounting for the resulting data.

In practical terms, the scenario shows that business diplomacy is not the same as public relations although there is some overlap. We need to further explore those patterns of activities to understand their interplay.

## **Three roles: Communication, Influence, Intelligence**

The first pattern that emerged comprises four activities that highlight communication functions such as “helping to establish and maintain open channels of communication and cooperation between the organization and the public” and “having the responsibility for official institutional communications with other organizations”, adhering to the fundamental public relations conception of “communication”.

The second pattern comprises five activities that have in common the nature of “influence” such as “affecting the making of rules” and “influencing economic and social actors to seize new business”. Four of these five activities came from the business diplomacy set of activities, which highlights the fundamental elements of the business diplomacy role, i.e., exerting influence.

Unexpectedly, a third pattern of activities emerged from the analysis. It comprises three mixed activities from public relations and business diplomacy roles, namely “diagnosing public relations problems”, “scanning the business environment”, and “meeting with and advising senior management”. These activities emphasize the overarching notion of “intelligence”. Business intelligence has gained a central role in making critical corporate decisions, as it implies efficiently and effectively scanning the environment, collecting, processing, and synthesizing data to produce knowledge that allows managers to react the best way possible. Business intelligence can support diverse corporate business decisions either operational or strategic.

The three groups of activities are differentially associated with the two original functions. As expected, “communication” is strongly related to “public relations” while “influence” is strongly related to “business diplomacy”. “Intelligence” is moderately related to both, meaning it leverages both communication and influence in the overall stakeholder management process. Communications, influence, and intelligence are the three cornerstones in conducting relations with stakeholders.

The three patterns of activities target different stakeholders. “Communication” targets a wide network of stakeholders by establishing the process of information flow while “influence” targets external stakeholders who have decision-making power at the systemic level (e.g., government officials, opinion makers, economic agents, and social actors). Business intelligence combines external data from the market in which the company operates with internal data to provide better insights for managers to make decisions, and so, “intelligence” targets mostly internal stakeholders by analysing critical data and providing organizational decision makers with actionable knowledge. Figure 2 depicts the findings.



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Insert Figure 2 approximately here

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### **This matters for managers**

Findings show the business diplomat role deserves credit as it is not just a surrogate of public relations. Faced with an array of internal and external stakeholders, companies should pursue proactive engagement. Both public relations and business diplomacy have an intrinsic value in this function of addressing stakeholder management through a different set of activities. Companies may gain from acknowledging the complementary role of the two disciplines

But, in practice, what should companies do to take into consideration this acknowledgment?

Since both roles are relevant, one important strategic issue relates to corporate structure. Should corporations have a structure that includes both executives, with split activities in the stakeholder management function?

If companies have both a public relations practitioner and a business diplomat, their coexistence may not be beneficial in getting a broad holistic approach, and the overlapping functions and goals may compromise the growing need for stakeholder management. The existence of both executives could jeopardize a strategic approach and action plan to deal with situations a corporation may be facing. This is especially true if they report to different members of top management. Let us imagine that a company finds out that its factory has recently started to exceed its allowed pollution emission levels, but it is crucial that the factory does not stop working while the problem is being fixed. In such a situation, if the public relations executive is responsible for communication with the media, while the business diplomat executive is responsible for the diplomacy role with the local government community and regulators, the messages and the overall approach may not be aligned, creating suspicion and further complaints.

If business diplomacy functions exist but are not centralized in a specific executive, companies should incorporate the role within a structure with a single executive responsible for all stakeholder management functions, including communication, influence, and intelligence roles. This new role should be a stakeholder manager or a “rebranded” public relations practitioner.

As it might be more advantageous to combine all roles with the same individual or existing department rather than to disperse them throughout the organization structure, the following questions arise: How to select the executive that should manage this function? To whom should this person report?

Corporations should assess their existing stakeholder manager and evaluate whether the profile, skills, and attitude are most compatible with the triple communication, influence and intelligence roles. Likewise, they can search externally to fill in that strategic position.

For reporting, Jin, Pang and Smith (2018) offered an interesting contribution to define the standing of public relations practitioners in the corporate hierarchy and whether they should be considered part of top management. Their findings showed it depends on the respect public relations receive from senior management, how much communication is valued in a crisis, and the awareness of the C-suite for the importance of communication. This contingency approach shows there is no single answer, but we reason that adding business diplomacy to public relations enlarges the function’s relevance and therefore its standing in the corporate hierarchy. Since the influence and intelligence roles, in addition to communication, provide a more strategic value to the stakeholder manager role, it is advisable to report directly to the C-Suite as it pertains to overarching critical activities in corporations.

## **Conclusion**

Stakeholder management is becoming an increasingly complex matter in light of the activism of internal and external stakeholders and their intricacies. Public relations one-way communication models have not sufficed for a long time, and two-way communication models have been implemented. These models can benefit from knowledge generated from diplomacy, arising from the need to

address in a sophisticated way the same issues that nations face regarding the often-contradictory interests of their stakeholders. This has fostered the concept of business diplomacy that engages in a diplomatic mind-set, assisting in the management of relationships between the company and its diverse sets of stakeholders, within a volatile environment and with a long-term perspective.

Both public relations and business diplomacy are functions based on two-way communication models that can help corporations become influential players in a complex network of stakeholders and in the society. Within this network, corporations gain from envisioning the overall stakeholder management system as designed around the three pillars of communication, intelligence, and influence, which requires both public relations and business diplomacy engagement. To be more effective, this engagement should pivot on a single structure and report directly to the top executive tier.

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